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SUBJECT: (S) LUKOIL'S ALEKPEROV PRAISES COOPERATION WITH CONOCOPHILLIPS, CALLS SHAHRISTANI A HINDRANCE IN IRAQ

REF: MOSCOW 912

Classified By: John R. Beyrle for Reasons 1.4 (b/d)

SUMMARY

¶1. (S) In a July 21 meeting with the Ambassador, Special Envoy C. Boyden Gray, and Ambassador Steven Mann, Lukoil President Vagit Alekperov welcomed greater U.S.-Russian business cooperation, praising his company's successful partnership with ConocoPhillips as a model for others. He said Central Asian gas can help supply the needs of Russia, China, and Europe, if only export transportation issues can be resolved. He blamed the lack of progress on CPC expansion over the years on the previous management of Transneft and expressed hope that expansion would happen soon. Alekperov criticized Gazprom as the "only monopoly left in Russia" and said he was pressing for reforms, including third-party access to the domestic pipeline system. Finally, on Iraq, Alekperov echoed his April comments to Ambassador Satterfield (reftel) that Oil Minister Shahristani is the major impediment to oil field development in Iraq -- development that would not only add oil supplies to world markets but also help stabilize the country. End Summary.

PARTNERSHIP WITH CONOCOPHILLIPS

¶2. (C) Noting the need for economic cooperation between the U.S. and Russia, Lukoil President Vagit Alekperov lauded the Lukoil-ConocoPhillips partnership as a model of how other U.S. companies can work successfully here. He credited extensive interaction between senior executives of both companies as having created the mutual understanding that is the foundation of the relationship. Alekperov described a system of executive exchange through which numerous senior managers from both companies work at the other for extended periods of time. He joked that the exchanges have also resulted in "everyone at Lukoil speaking English except me." He repeatedly emphasized that ConocoPhillips is not a mere shareholder (20% of Lukoil stock), but a "true partner" helping to create "one team." Contrasting the Lukoil-ConocoPhillips experience with the troubled experience of BP in Russia, Alekperov said the two sides in TNK-BP never developed a joint understanding of the nature of the venture.

¶3. (C) Alekperov invited the Ambassador, SE Gray, and Ambassador Mann to attend an August 27th event commissioning the company's YK oil field and the Varendei terminal on the Barents sea, which he said ConocoPhillips had played an important role in developing. He described the terminal as the first gateway for Russian oil to directly enter the world market by tanker.

CASPIAN

¶4. (C) Alekperov described the Caspian region in general as woefully underexplored and underexploited, citing his first-hand knowledge of Soviet oil and gas policy that saw the region as a "reserve" to be tapped when West Siberian production declined. He believes the region holds enough gas to help satisfy Russian, Chinese, and European demand but lamented the lack of progress on export routes. Noting the importance of the region, Alekperov lauded the creation of Ambassador Gray's position as an important symbol of U.S. interest. He added that the prospects for Nabucco were "unclear," but suggested that all of the proposed pipelines could be filled if the region were adequately exploited.

¶5. (C) In that regard, Alekperov said Lukoil's joint proposal with ConocoPhillips to develop certain fields in Turkmenistan is virtually a done deal and is only awaiting a decision by President Berdymuhamedov on a signing date. He asked that the USG make clear its support for the deal. Ambassador Mann

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responded that he had already made USG support known explicitly to the GOTX. Alekperov also cited prospects in Uzbekistan, where Lukoil expects to increase its gas production five-fold in the next seven years.

TRANSNEFT AND GAZPROM

¶6. (C) In a jab at Transneft, Alekperov blamed the lack of progress on expansion of the CPC (in which it is a partner) on previous Transneft management. He was hopeful, however, that expansion would now happen quickly because it is beneficial to all sides. Alekperov also took shots at Gazprom. Apparently forgetting Transneft's monopoly status, he called Gazprom "the only remaining monopoly in Russia." When discussing Lukoil's competitive advantage in the Caspian region, he said "Gazprom's only advantage is that can transport Central Asian gas across its network." He was pleased with the GOR's recent calls on Gazprom to grant third-party access to its domestic pipeline system and believed further oil and gas reforms were on the way. Ambassador Gray urged that Russia grant third country access to the system, which he claimed would resolve many of the current disputes over transit routes.

IRAQ

¶7. (S) Responding to the Ambassador's inquiry about the West Qurna oil field in Iraq, Alekperov responded "we have just one opponent: the Oil Minister." He said the West Qurna field could produce 250,000 barrels per day very quickly, providing needed jobs, income, and stability. However, reiterating comments he made to Ambassador Satterfield in April, Alekperov said Shahristani's years in Iran had convinced him that the Iranian model of service contracts is preferable to Production Sharing Agreements. He described Shahristani as emotionally wedded to this thinking and spreading "negative feelings" about PSAs. He believed that oil sector development in Iraq would not progress quickly as long as Shahristani is Oil Minister. He lamented this lack

of progress as not only keeping essential crude off the world market, but also preventing socio-economic development in Iraq. "You don't have extremists when people are receiving good salaries," he said.

COMMENT

¶8. (C) Alekperov's appreciation of the partnership with ConocoPhillips, his welcoming of further cooperation with the U.S. and his interest in productive projects internationally were refreshing. He has shrewdly managed his relationship with the GOR to keep his company outside of direct Kremlin control. That relative independence, his interaction with ConocoPhillips, and his experience with international competition, seem to have positively shaped his outlook. Although they come from similar Soviet backgrounds, Gazprom's senior leaders (who were unavailable for meetings with the Ambassador and SE Gray) rely on their monopoly and convey a zero-sum mentality between U.S. and Russian interests, while Alekperov seems to embrace working with U.S. companies and competing in the global marketplace. End comment.

BEYRLE